

California Partnership for the San Joaquin Valley

Overview Report *for the* Economic Development Work Group

I. Introduction

The California Partnership for the San Joaquin Valley has been directed by Governor Schwarzenegger to develop an action proposal that provides recommendations “to improve the economic conditions of the San Joaquin Valley.” Needless to say, the factors contributing to the Valley’s economic conditions are numerous and interdependent and range from workforce development and complex social issues to environmental and fundamental business competitiveness issues, to name just a few. The Economic Development Work Group is tasked with assessing and developing actionable recommendations that will lead to improved competitiveness of the San Joaquin Valley economy. The following paragraphs serve to frame the issues to be addressed by the Work Group and provide recommendations on proposed goals and scope of work.

II. Summary of Findings in Base Reports

In recent years, a host of reports have been published that provide a basic understanding and baseline information on the status and competitiveness of the Valley economy. Summarized below are key findings from several of these major reports (please see Section VI for complete references for the publications cited below).

A. The San Joaquin Valley has been consistently plagued with high levels of unemployment for over twenty five years, even during peak agricultural seasons.

B. Job growth has been respectable in the San Joaquin Valley since 1990. However, unemployment levels have remained high, and Valley per capita income remains the lowest in the state.

Between 1990 and 2003, the San Joaquin Valley economic region posted a respectable 24.9% increase in jobs, which was greater than the U.S. (16.4%), California (14.6%), and the two largest economic regions in the state – the Bay Area (11.2%) and Southern California (8.2%). The Greater Sacramento economic region experienced the largest job gain during the same period at 31.6%.

However, the San Joaquin Valley trailed the rest of the state and nation in gains in per capita income from 1990 to 2001 with a 30.2% increase compared to 72.9% in the Bay Area, 48.2% throughout California, and 55.4% in the U.S. In 2001, the San Joaquin Valley per capita income was the lowest in the state at \$21,317. The state per capita income in 2001 was \$32,563.

C. The “Top 10” Job Providing Industries in the Region. The following industries were identified by the California Regional Economies Project as the top job providers in the San Joaquin Valley based on the number of jobs in each industry in 2002, along with an analysis of the top job generators from 1990 to 2002:

1. All Government
2. Health Care and Social Assistance

3. Manufacturing (including Food Manufacturing)
4. Retail Trade
5. Accommodations and Food Service
6. Construction
7. Administrative and Waste Services
8. Other Services (Except Public Administration)
9. Transportation and Warehousing
10. Management of Companies and Enterprises

Direct farm jobs do not register on the “top 10” list. However, there are a number of direct and indirect agricultural sectors that are included in the “Manufacturing Industry,” such as animal food manufacturing, grain and oilseed milling, sugar and confectionary product manufacturing, fruit and vegetable preserving and specialty, dairy product manufacturing, animal slaughtering and processing, bakeries and tortilla manufacturing, beverage manufacturing, agricultural chemical manufacturing, and agricultural machinery manufacturing. Additional agriculture-related jobs are included in the “Other Services” and “Transportation and Warehousing” sectors. According to the University of California Agricultural Issues Center, 38% of regional employment in the San Joaquin Valley is ag-related when considering direct, indirect and induced multiplier effects of the agriculture sector.

D. Agriculture is arguably the most innovation-driven industry in the region - adopting and integrating technologies, developing new products, and adding increased value to products. However, agriculture cannot serve as a stand-alone driver of the regional economy.

The San Joaquin Valley is the richest agricultural region in the world. As the above employment figures demonstrate, agriculture serves as the cornerstone for economic opportunity in the Valley. However, it alone cannot serve as the primary driver of the regional economy. Direct employment in agriculture is declining and will continue to do so as new technologies are adopted and integrated into production processes. Furthermore, reliance on agriculture alone subjects the region to unpredictable, external forces such as global commodity markets.

E. Improving the economic vitality of the San Joaquin Valley requires the development of outward-oriented sectors that compete on innovation and serve sophisticated markets.

“True economic vitality over the long run requires developing significant outward-oriented sectors that compete on innovation and that serve sophisticated state, national, and international markets...These driving industries will pay strong wages and provide a sustained stimulus to the growth of local-serving sectors such as retail, services, and construction.”
- Economic Future of the San Joaquin Valley, Jan. 2000

F. Recent growth of the San Joaquin Valley economy appears to be based on increased population and cost-driven growth. Such activity can provide a platform for future growth, but will not ultimately improve standards of living in the region.

The expansion of the construction industry is responsible for much of the recent job growth in Valley communities. That trend is expected to continue, along with the expansion of other people-serving industries, such as health care, education and government. For example, according to the University of the Pacific’s “California and Metro Business Forecast,” construction, education and health services are expected to experience the highest growth rates through 2007 in the Fresno, Merced and Modesto metropolitan areas.

G. Shifting from “population” and “cost driven” growth to innovation-driven and valued-added growth will require investments in the “complete business climate.”

Economic vitality in California and in the San Joaquin Valley will require focusing on the “complete business climate” – minimizing the negatives (e.g. regulatory climate, taxes and fees, high cost of electricity, etc.) and simultaneously investing in infrastructure and opportunity. Infrastructure investments needed include industrial infrastructure, education and workforce, innovation infrastructure (e.g. entrepreneurship support programs, applied R&D, investment capital), housing and “quality of life” amenities.

H. The San Joaquin Valley is made up of two distinct components: the rural parts of the region and the metropolitan areas in the region.

The rural and urban parts of the San Joaquin Valley are inextricably tied. However, there are unique challenges and opportunities in the rural parts of the San Joaquin Valley that need to be recognized and addressed. Of heightened importance in the rural San Joaquin Valley is the need/opportunity for affordable high speed Internet access, entrepreneurial mindsets in the private and public sectors, workforce development, and infrastructure planning and investment.

III. Proposed Goals

Consistent with Governor Schwarzenegger’s executive order, the ultimate measure of success of the California Partnership and its Economic Development Work Group is sustained, long-term economic vitality in the San Joaquin Valley. Any number of worthwhile efforts could be pursued to achieve that end. However, to take advantage of the opportunity created by Governor Schwarzenegger’s executive order, the Work Group must focus on the areas with immediate opportunities that can also lead to the greatest, long-term benefit for the region. The following goals are proposed for the Economic Development Work Group:

- **Innovation and Entrepreneurship Development** – Create a dynamic, entrepreneur-producing economic climate in the San Joaquin Valley by developing a robust infrastructure for new business formation and growth (e.g. “knowledge infrastructure,” business incubators, entrepreneur training programs, seed funds and risk capital, applied research and technology transfer programs, etc.).
- **Competitiveness of Target Industries** - Create regional, comparative advantage for target industries by connecting clusters of businesses throughout the region to one another and championing key projects that drive industry competitiveness.
- **Infrastructure and Incentive Programs** – Develop and implement “best practices” infrastructure and incentive programs that are responsive to the needs and opportunities in the San Joaquin Valley and maximize the impact of public resources.
- **Renewable Energy** - Accelerate the growth of the emerging “renewable energy” industry and establish the San Joaquin Valley as a leader in the development and adoption of renewable energy technologies, such as energy efficiency, solar, biomass, and wind.

IV. Proposed Scope of Work for the Economic Development Work Group

A. Economic Development Work Group Members - The Economic Development Work Group will be comprised of a network of economic development and industry leaders throughout the

Valley that are willing to serve as “champions” for various projects. To the greatest extent possible, the Work Group members will identify and work with existing efforts in the Valley in order to move quickly and have the most impact on the region. A starter list of organizations to engage in the Economic Development Work Group is provided in Section V.

B. Interdependence of Work Groups - The issues and opportunities being addressed by the Economic Development Work Group are interdependent with several of the other Partnership Work Groups (e.g. Workforce Development and Higher Education, Technology, Transportation, Air Quality, etc.). Communication and coordination with other Work Groups will be essential to the overall success of the Partnership.

C. Proposed Action Steps for Each Goal Area - There are a number of ways to pursue the goals described above. To initiate the discussion among the Partnership members, preliminary action steps for each goal area are described below. The action steps are designed to be a “straw man” only and should be modified and expanded as the Partnership and Economic Development Work Group members see fit.

- **Innovation and Entrepreneurship Development**
 - Develop the region’s “knowledge infrastructure” - Conduct a comprehensive audit of the Valley’s “knowledge infrastructure” (i.e. lawyers, financial professionals, engineers, business consultants, university researchers, small business support programs) to identify sources of technical and business expertise for new firm formation. Connect and convene this network of experts. Prepare (and to the greatest extent possible initiate implementation of) an action plan to nurture and grow the network of experts.
 - Create an Environmental Technology Investment Fund – Assemble the state and regional investment community to develop an environmental technology investment fund headquartered in the San Joaquin Valley.
 - Business Incubators and Research Parks – Work with economic and community development leaders, along with the commercial real estate industry, to identify opportunities for new incubators and research parks. Develop creative ways to launch the incubators and research parks.

- **Competitiveness of Target Industries**
 - Identify target industries – Work with economic and community development leaders to identify the top 3-5 industry clusters with growth potential throughout the region.
 - Develop region-wide industry networks in the targeted areas by connecting existing industry groups, trade associations, etc.
 - Identify top opportunities/challenges for the targeted industries and develop industry-driven action plans to realize the opportunities and overcome the challenges.
 - Initiate implementation of the industry action plans.

- **Infrastructure and Incentive Programs**
 - Develop the parameters of “best practices” infrastructure investment and incentive programs that provide the most efficient and effective use of public resources.
 - Evaluate existing tools and programs offered by the state relative to those “best practices,” including a specific review and recommendation on the usefulness of the Rural Investment Tax Exemption Program offered by the California Infrastructure and Economic Development Bank. Identify gaps, inefficiencies, barriers to usefulness,

and opportunities. Partner with the Federal Interagency Task Force's Water/Waste Water Committee to develop specific plans to address water infrastructure needs in rural sub-regions. *(Note: Assemblyman Arambula, Chair of the Assembly Jobs, Economic Development and the Economy Committee, has already initiated a review of infrastructure and incentive programs and is developing a catalog of all Federal and state programs that can be used by the Work Group.)*

- Develop an actionable plan to modify, eliminate, and/or create the infrastructure investment and incentive programs most needed in the Valley.
- **Renewable Energy**
 - Join forces with the Federal Interagency Task Force's "Clean Air/Clean Energy" work group.
 - Conduct an audit of renewable energy programs and experts in the region (e.g. university, non-profit, education and training community, private sector) to assemble a leadership team.
 - Review the March 2003 Great Valley Center publication, "Renewable Energy: Strategic Opportunities for the Great Central Valley," and advance the recommendations of the report: (1) craft a regional strategy, (2) encourage market development, (3) streamline local planning and permit processes, (4) provide capital incentives, and (5) influence state policy.

V. Proposed Stakeholders

- Economic Development Corporations (EDCs) and the California Central Valley Economic Development Corporation
- Small Business Development Center network
- Chambers of Commerce
- Counties' and cities' economic development staff
- Lyles Center for Innovation and Entrepreneurship
- Central Valley Business Incubator
- Central Valley Fund
- Regional Jobs Initiative
- UC Merced
- California State Universities – Bakersfield, Fresno, Stanislaus
- Fresno Business Council
- San Joaquin Business Council
- Federal Interagency Task Force for the Economic Development of the San Joaquin Valley

VI. Publication References

- Economic Future of the San Joaquin Valley. January 2000. Published by the Great Valley Center. Prepared by Collaborative Economics. Available at <http://www.greatvalley.org>.
- Innovation, Entrepreneurship, Collaboration: An Economic Action Agenda for Rural California. July 2005. Prepared by the California Center for Regional Leadership on behalf of Governor Schwarzenegger's Cabinet in partnership with the California Endowment and the Humboldt Area Foundation. Available at <http://www.calregions.org>.

- Innovation, Investment, Collaboration: A Statewide Action Agenda for Economic Vitality from California's Regional Leaders. February 2005. Prepared by the California Center for Regional Leadership on behalf of Governor Schwarzenegger's Cabinet in partnership with the California Endowment and the Humboldt Area Foundation. Available at <http://www.calregions.org>.
- California & Metro Forecast, 2005-2030. June 2005. Published by the University of the Pacific Business Forecasting Center, Eberhardt School of Business. Available at <http://forecast.pacific.edu>.
- The Measure of California Agriculture, 2000. November 2000. Prepared by Nicolai V. Kuminoff, Daniel A. Sumner, and George Goldman. Published by the University of California Agricultural Issues Center. Available at <http://aic.ucdavis.edu>.
- Renewable Energy: Strategic Opportunities for the Great Central Valley. March 2003. Published by the Great Valley Center. Prepared by Collaborative Economics. Available at <http://www.greatvalley.org>.
- California Regional Economies Project: San Joaquin Valley Economic Base Report. Prepared by J. K. Inc. Published by the California Workforce Investment Board and the California Economic Strategy Panel. Available at <http://www.labor.ca.gov/panel/espcrepindex.htm>.

Special thanks to Assemblyman Juan Arambula for providing notes from a series of focus groups on infrastructure recently held with public and private leaders from throughout the Central San Joaquin Valley.